TANTALLON CAPITAL

October 2017

THE TANTALLON FUND

The Tantallon Fund is a Cayman Island vehicle which invests in listed equities in the Asia Pacific region. The fund targets a concentrated portfolio of 35 names, with a 3-5 year investment horizon. At the portfolio manager's discretion the fund may hedge its market and currency exposure, and short sell individual securities.

Tantallon Capital Advisors, the advisory company since inception in 2003, is a Singapore-based entity holding a Capital Markets Service License in Fund Management from the Monetary Authority of Singapore.

The fund rose +2.14%, +30.9% for the year.

A disappointing month, with strong returns on our Indian positions (+1.86% in aggregate), further strength in Australia (A2 Milk once again our top performer, adding 1% to NAV), and some belated strength in our Japanese positions (+95bps) offset by weakness in Hong Kong, and mark to market losses of -1.15% in our long JPY position. With the exception of Nexteer, the manufacturer of steering systems, our large holdings in Hong Kong, Pacific Basin and Melco were flat to weaker, and we saw relatively sharp losses in both Vallourec and Auckland International Airport.

The coronation of Xi JinPing at the conclusion of the 19th Party Congress, and the emphasis placed in his exceptionally lengthy speech on the primacy of the Party, indicate that the role of the private sector will remain circumscribed and that "reform" means a strengthening of the power of the SOE sector. "Opening up" now increasingly implies a more assertive outward push by Chinese state institutions, the better to assert Chinese geo-political ambitions within the region and globally. Those who, like myself, scoffed at the grandiose schemes behind The Belt and Road initiative will rue their error. It is also clear that environmental issues are being taken very seriously as winter approaches, and restrictions on steel and coal, and autos, are beginning to impact industrial production. Financial conditions have been steadily tightened all year, in tandem with the economic recovery, and 10 year bond yields top 4%, albeit still accommodative in real terms. We are looking at a model of slower, higher quality growth, with a domestic stock market likely buoyed by substantial debt-fueled liquidity trapped behind capital controls. In this scenario the obvious winners have been, for some weeks, the finance sector in general, and the insurance sector specifically. Equally clearly in the short term this does not bode well for shipping or commodity names, tied, correctly or not, to the growth rate of fixed assets and the strength of the property sector. So I am uncomfortably aware that we can expect little performance, robust though growth may be in the rest of the world, from positions such as Pacific Basin and MMG our copper company.

Performance

Tantallon Fund Size USD 39mn (Cayman is Feeder)
(Inception Nov 03)

	Tan	MSCI Pacific Free Index	Over/(Under)perf
Oct 2017	**+2.14%**	+3.51%	-1.37%
2017 YTD	**+30.88%**	+16.89%	+13.99%
2016	**-11.32%**	+1.49%	-12.81%
2015	**-3.01%**	+0.44%	-3.45%
Inception	**+132.90%**	+73.15%	+59.75%

Compound	+6.23%pa	Volatility	+14.99%
3 mth T-bill return	+1.13%	Sharpe Ratio	0.34

FUND DETAILS

Investment Manager:
Tantallon Capital
(Cayman Islands)

Fees:
1.5%pa Management fees

Administrator:
Portcullis Trust
(Singapore) Ltd

Minimum Investment:
USD 1,000,000

Domicile:
Cayman Islands

Prime Broker:
Morgan Stanley

Feeder funds
Onshore (Cayman LP), Offshore (Cayman Is)

Auditor:
Pricewaterhouse Coopers

Lawyers
Maples & Calder
Shearman & Sterling LLP

Dealing:
Monthly

Contact:
Alex Hill
(alex@tantalloncapital.com)

YEAR	RETURN	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Inception	+132.90%												
2017	+30.88%	+2.69%	+6.43%	+6.00%	-1.17%	+5.74%	+0.96%	+6.75%	-1.59%	-0.19%	+2.14%		
2016	-11.32%	+13.28%	-4.88%	-14.59%	+1.39%	+0.26%	-6.79%	+0.20%	+2.70%	-0.26%	+2.11%	-4.30%	+1.39%
2015	-3.01%	+1.79%	-4.91%	+2.46%	-5.89%	+2.71%	-1.05%	+4.50%	+8.99%	-4.50%	-6.25%	-0.84%	+1.12%
2014	+0.24%	-2.28%	+4.41%	-5.08%	-3.85%	-2.91%	+3.22%	-3.84%	-2.48%	-0.50%	+0.28%	+16.37%	-1.34%
2013	+20.14%	+6.23%	+5.97%	+2.90%	+3.62%	-3.88%	-5.55%	+2.56%	-0.05%	-2.19%	+1.86%	+5.75%	+2.08%
2012	-0.12%	-0.87%	-0.18%	-1.47%	-3.88%	-4.03%	-2.33%	-0.20%	-0.73%	+5.81%	+0.95%	+2.81%	+4.50%
2011	-9.85%	-4.09%	-1.64%	+3.28%	+3.93%	-0.67%	-1.51%	+2.01%	+0.47%	+3.46%	-6.24%	-6.44%	-2.16%
2010	-3.54%	-7.08%	-4.95%	+4.06%	+4.90%	-7.24%	-1.02%	-0.17%	-0.29%	+9.24%	+0.32%	-2.51%	+2.47%
2009	+29.45%	-5.50%	+4.43%	-2.25%	+3.46%	+13.97%	-0.12%	+7.32%	-1.34%	-2.12%	-1.45%	+4.23%	+7.03%
2008	-28.36%	-5.72%	+2.44%	-0.05%	-5.39%	-1.33%	-6.87%	-6.65%	-5.39%	-4.17%	+0.59%	+0.07%	+0.20%
2007	+20.24%	+0.39%	+4.60%	+1.34%	+0.05%	+2.44%	+4.19%	+4.86%	-0.38%	+3.66%	+4.35%	-3.07%	-3.40%
2006	+12.99%	+4.20%	-1.53%	-0.93%	+0.44%	-1.93%	+0.13%	+1.02%	-3.71%	+0.26%	+4.89%	+6.89%	+3.08%
2005	+22.75%	-0.55%	+3.77%	-0.68%	-1.45%	+0.54%	+1.92%	+4.23%	+0.87%	+7.76%	-4.00%	+5.28%	+3.56%
2004	+25.40%	+5.80%	+4.80%	+4.60%	-1.69%	-2.67%	-0.53%	-1.42%	-0.18%	+5.42%	+3.17%	+2.41%	+3.65%
2003	+2.00%											-3.50%	+5.70%

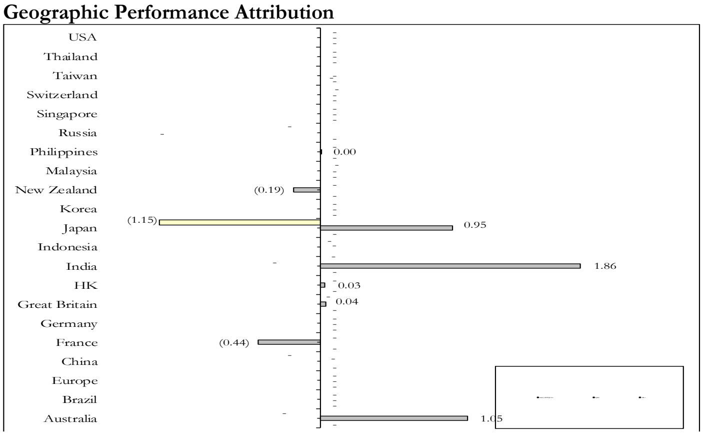
We have also been slow to recognise the risk of a rapprochement between the Chinese and the South Korean leadership over the issue of THAAD. The resultant surge in Korean domestic names, to add to the eye-popping gains of the Kospi this year driven by the strength in Samsung and Hynix, has completely passed us by. Actually, given that we have failed to have had any exposure to the Chinese internet and regional tech names that have dominated performance this year the fact that we have done as well as we have is fortunate!

Clearing my head of market noise I have spent the last 10 days in the Middle East, traveling variously in Amman, through the Bekaa Valley and as far south at Tyr in Lebanon and ultimately to Cairo. For the most part I was traveling with a splendidly named French aristocrat, Regis Nacfaire de Saint Paulet, who carries a diplomatic passport as an officer of the Knights of Malta, and who has a full-time, and essential task as chief operating officer of Jesuit Refugee Services, whose operations in Jordan and Amman we were seeing. Visiting a handful of the displaced Syrian, Iraqi, or Yemeni refugees who eke out existence in hovels in Amman, or amongst the wind-swept orchards of the Bekaa, is a humbling experience. The contrast between the cloistered and uneducated young women, typically with 3 or 4 children and barely in their mid-20's, and the empowered, educated and resourceful Muslim women from Lebanon and Jordan into whose hands responsibility for their health, childcare and education has fallen is stark. The lack of reproductive choice, and the utter lack of emancipation were shocking; and the baby steps of training in hairdressing, cosmetic usage, dress making, crocheting and other skills which would allow these women for the first time to emerge as bread winners in their own right, and the suspicion with which the men view these initiatives, is fascinating. And the ultimate, if pleasant irony, for someone educated, if I can claim that title (I might as well have been at a Catholic madrassah) by the Jesuits, for much of their history amongst the most zealous of the proselytising Orders of the Catholic Church, was to see the Society of Jesus, not a cross in sight, at the invitation of the Sunni mufti of Bekaa, to teach a secular curriculum to Syrian refugee children within the mosque complex. An effect only slightly ruined by the announcement by the mufti that he had a Schengen visa and would be delighted to be invited to Rome for further inter-faith dialogue!

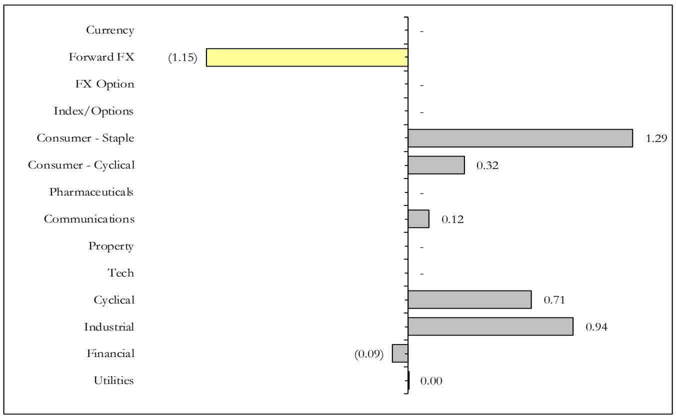
November is proving tricky. Markets feel fatigued, although global growth data remains robust and corporate profits continue to be revised upwards. The geo-political threat waxes and wanes, with arguably the more imminent threat to peace coming from the aggressive attitude of MBS in Riyadh and the splintering of the Middle East on a Shia/Sunni axis. I have been reducing the gearing in the book, jettisoning a number of stocks that have failed to perform, and re-thinking our positioning for 2018.

% OF ASSETS ALLOCATION	EQUITY LONG	EQUITY SHORT	INDEX LONG	INDEX SHORT	NET EXPOSURE	GROSS EXPOSURE
Australia	6.79%				6.79%	6.79%
China						
Europe	9.44%				9.44%	9.44%
Hong Kong	29.67%				29.67%	29.67%
India	43.16%				43.16%	43.16%
Indonesia						
Japan	25.72%				25.72%	25.72%
Korea (South)						
New Zealand	2.74%				2.74%	2.74%
Philippines	2.29%				2.29%	2.29%
Singapore						
United States						
Total	**119.81%**				**119.81%**	**119.81%**

Geographic Performance Attribution



Sector Performance Attribution



Equity Positions

Long	24	Largest 10 Longs	73.14% of NAV	Long Liquidity	0.48days	Mkt Capitalization	>2Bn	62%
Short	0	Largest 10 Shorts	0% of NAV	Short Liquidity	0.00days	Gross Exposure	>500m-2Bn>	30%
						(USD)	<500mn	8%

Top 5 % Longs		Top 5 Contributors	Top 5 Detractors
Kotak Mahindra Bank Ltd	10.09%	A2 Milk Co Ltd (L)	Melco International (L)
Shimano Inc	9.35%	FANUC Corp (L)	Vallourec SA (L)
Aegis Logistics Ltd	9.10%	Gateway Distriparks Ltd (L)	Auckland International (L)
Pacific Basin Shipping Ltd	8.71%	Tata Steel Ltd (L)	Cox and Kings Ltd (L)
Melco International	8.70%	Nexteer Automotive Group (L)	Summit Ascent Holdings Ltd (L)